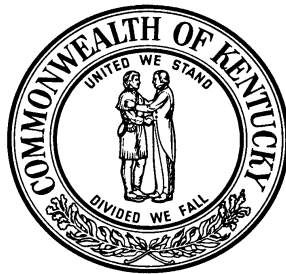


**REPORT OF THE AUDIT OF THE
METCALFE COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2005**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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CRIT LUALLLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

The Honorable Greg Wilson, Metcalfe County Judge/Executive

The Honorable Donald Butler, Former Metcalfe County Judge/Executive

Members of the Metcalfe County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountant, presents the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Metcalfe County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements.

We engaged Ross & Company, PLLC to perform the audit of these financial statements. We worked closely with the firm during our report review process; Ross & Company, PLLC evaluated the Metcalfe County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen".

Crit Luallen

Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE METCALFE COUNTY FISCAL COURT

June 30, 2005

Ross & Company, PLLC has completed the audit of the Metcalfe County Fiscal Court for fiscal year ended June 30, 2005. We have issued an unqualified opinion on the governmental activities, each major fund, and aggregate remaining fund information of Metcalfe County, Kentucky. We have issued a qualified opinion based on our report and the report of other auditors on the discretely presented component unit.

Financial Condition:

The fiscal court had net assets of \$5,601,029 as of June 30, 2005. The fiscal court had unrestricted net assets of \$2,296,198 in its governmental funds as of June 30, 2005. The fiscal court's discretely presented component unit had net assets of \$2,059,987 as of June 30, 2005. The discretely presented component unit had net cash and cash equivalents of \$223,419. The fiscal court had total debt principal as of June 30, 2005 of \$6,319,740 with \$286,951 due within the next year.

Report Comments:

- 2005-01 The County Should Improve Their Internal Control Procedures
- 2005-02 The County Should Maintain Proper Records For The Public Properties Corporation Fund
- 2005-03 The County Should Maintain Complete And Accurate Capital Asset Schedules To Comply
With GASB 34 Requirements And Inventory Capital Assets Periodically
- 2005-04 The County Should Review Control Activities Of The Accounting Software
- 2005-05 The County Should Improve Purchase and Procurement Procedures

Deposits:

The fiscal court and component unit's deposits were insured and collateralized by bank securities.

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To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

The Honorable Greg Wilson, Metcalfe County Judge/Executive

The Honorable Donald Butler, Former Metcalfe County Judge/Executive

Members of the Metcalfe County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of Metcalfe County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Metcalfe County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Metcalfe County Health Services, Inc., a discretely presented component unit, which represents 100%, respectively of the assets and revenues of the discretely presented component opinion unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and in our opinion, insofar as it relates to the amounts included for the Metcalfe County Health Services, Inc., is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit, and the report of other auditors provides a reasonable basis for our opinions.

As described in Note 1, Metcalfe County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The financial statements of Metcalfe County Health Services, Inc., a discretely presented component unit of the Metcalfe County Fiscal Court, are presented in accordance with the accrual basis of accounting and therefore include certain accruals required by accounting principles generally accepted in the United States of America that are not presenting in accordance with the modified cash basis of accounting. The amounts by which these accruals affect the financial statements are not reasonably determinable.

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

The Honorable Greg Wilson, Metcalfe County Judge/Executive

The Honorable Donald Butler, Former Metcalfe County Judge/Executive

Members of the Metcalfe County Fiscal Court

In our opinion, based on our audit and the reports of other auditors, except for the effects of such adjustments, if any as might have been determined had the Metcalfe County Health Services, Inc., been prepared using the same basis of accounting as Metcalfe County, Kentucky, the financial statements referred to above present fairly, in all material respects, the respective financial position of the discretely presented component unit of Metcalfe County, Kentucky as of June 30, 2005 and the respective changes in financial position, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In addition, in our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Metcalfe County, Kentucky, as of June 30, 2005, and the respective changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Government Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be a part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statement but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Metcalfe County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

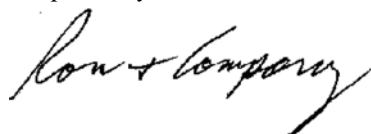
In accordance with Government Auditing Standards, we have also issued our report dated June 15, 2007, on our consideration of Metcalfe County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
The Honorable Greg Wilson, Metcalfe County Judge/Executive
The Honorable Donald Butler, Former Metcalfe County Judge/Executive
Members of the Metcalfe County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2005-01 The County Should Improve Their Internal Control Procedures
- 2005-02 The County Should Maintain Proper Records For The Public Properties Corporation Fund
- 2005-03 The County Should Maintain Complete And Accurate Capital Asset Schedules To Comply
With GASB 34 Requirements And Inventory Capital Assets Periodically
- 2005-04 The County Should Review Control Activities Of The Accounting Software
- 2005-05 The County Should Improve Purchase and Procurement Procedures

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Ross & Company", written in black ink.

Ross & Company, PLLC
Certified Public Accountants

June 15, 2007

METCALFE COUNTY OFFICIALS

For The Year Ended June 30, 2005

Fiscal Court Members:

Donald M. Butler, II	County Judge/Executive
Jessie Harper	Magistrate
Barry Steele	Magistrate
Dale Rowlett	Magistrate
Greg White	Magistrate

Other Elected Officials:

John P. Blevins	County Attorney (thru 9/04)
Sharon Bowles Howard	County Attorney (beginning 10/04)
Matthew Gallagher	Jailer
Carol E. England	County Clerk
Mary M. Shive	Circuit Court Clerk
Rondal Shirley	Sheriff
Michael Welsh	Property Valuation Administrator
Larry Wilson	Coroner

Appointed Personnel:

Martha C. Richardson	County Treasurer
Lorrie A. Boston	Finance Officer/Occupational Tax Collector

METCALFE COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2005

METCALFE COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2005

	Governmental Activities	Component Unit - Metcalfe County Health Services, Inc.
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 2,636,110	\$ 223,419
Accounts Receivable		596,058
Notes Receivable (Nursing Home)	35,000	
Estimated Due from Medicare		130,302
Inventory		9,222
Prepaid Insurance		58,243
Interest Receivable		539
Total Current Assets	<u>2,671,110</u>	<u>1,017,783</u>
Noncurrent Assets:		
Notes Receivable (Nursing Home)	965,000	
Capital Assets - Net of Accumulated Depreciation		
Land	329,000	76,288
Land Improvements		12,303
Buildings	6,940,262	1,098,906
Other Equipment	347,825	539,506
Vehicles and Equipment	174,276	
Infrastructure Assets - Net of Depreciation	493,296	
Funded Depreciation Accounts		579,098
Residents' Accounts		6,796
Total Noncurrent Assets	<u>9,249,659</u>	<u>2,312,897</u>
Total Assets	<u>11,920,769</u>	<u>3,330,680</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable		127,532
Resident's Accounts		6,796
Payroll Withholdings		228
Accrued Management Fee		41,960
Accrued Payroll		68,242
Accrued Vacation		25,935
Notes Payable (Fiscal Court)		35,000
Bonds Payable	190,000	
Financing Obligations Payable	96,951	
Total Current Liabilities	<u>286,951</u>	<u>305,693</u>
Noncurrent Liabilities:		
Notes Payable (Fiscal Court)		965,000
Bonds Payable	4,690,000	
Financing Obligations Payable	1,342,789	
Total Noncurrent Liabilities	<u>6,032,789</u>	<u>965,000</u>
Total Liabilities	<u>6,319,740</u>	<u>1,270,693</u>

The accompanying notes are an integral part of the financial statements.

METCALFE COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
June 30, 2005
(Continued)

	Governmental Activities	Component Unit - Metcalf County Health Services, Inc.
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	\$ 2,929,919	\$ 727,003
Restricted For:		
Capital Projects	373,389	579,098
Debt Service	1,523	
Unrestricted	2,296,198	753,886
Total Net Assets	<u>\$ 5,601,029</u>	<u>\$ 2,059,987</u>

The accompanying notes are an integral part of the financial statements.

METCALFE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

METCALFE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

Functions/Programs Reporting Entity	Expenses	Program Revenues Received	
		Charges for Services	Operating Grants and Contributions
Governmental Activities:			
General Government	\$ 828,847	\$ 25,061	\$ 574,484
Protection to Persons and Property	497,611	160	137,334
General Health and Sanitation	139,590		389,831
Social Services	13,533		
Recreation and Culture	26,561		
Roads	629,348		1,030,199
Debt Service	262,384		
Capital Projects	121,872		
Total Governmental Activities	<u>\$ 2,519,746</u>	<u>\$ 25,221</u>	<u>\$ 2,131,848</u>
Component Unit:			
Metcalf County Health Services, Inc.	<u>\$ 4,104,604</u>	<u>\$ 4,487,985</u>	

General Revenues:

Taxes:

 Real Property Taxes

 Personal Property Taxes

 Motor Vehicle Taxes

 Other Taxes

Excess Fees

Miscellaneous Revenues

Accrued Interest

 Total General Revenues

 Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

METCALFE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2005
(Continued)

Net (Expenses) Revenues
and Changes in Net Assets

<u>Governmental</u> <u>Activities</u>	<u>Component</u> <u>Unit</u>
\$ (229,302)	
(360,117)	
250,241	
(13,533)	
(26,561)	
400,851	
(262,384)	
(121,872)	
<u>\$ (362,677)</u>	
	<u>383,381</u>
\$ 282,098	
8,331	
43,544	
911,607	
3,595	
29,002	
34,192	
<u>1,312,369</u>	
949,692	<u>383,381</u>
<u>4,651,337</u>	<u>1,676,606</u>
<u>\$ 5,601,029</u>	<u>\$ 2,059,987</u>

The accompanying notes are an integral part of the financial statements.

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METCALFE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2005

METCALFE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2005

	General Fund	Road Fund	Jail Fund	Ambulance Fund
ASSETS				
Cash and Cash Equivalents	\$ 1,302,604	\$ 588,425	\$ 10,017	\$ 407,134
Total Assets	<u>\$ 1,302,604</u>	<u>\$ 588,425</u>	<u>\$ 10,017</u>	<u>\$ 407,134</u>
FUND BALANCES				
Reserved for:				
Encumbrances	\$ 4,100	\$ 5,809	\$	\$
Unreserved:				
General Fund	1,298,504			
Special Revenue Funds		582,616	10,017	407,134
Debt Service Fund				
Capital Projects Fund				
Total Fund Balances	<u>\$ 1,302,604</u>	<u>\$ 588,425</u>	<u>\$ 10,017</u>	<u>\$ 407,134</u>

The accompanying notes are an integral part of the financial statements.

METCALFE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2005
(Continued)

Metcalfe County Public Properties Corporation Sinking Fund	Metcalfe County Public Properties Corporation Construction Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ 1,523	\$ 8,390	\$ 318,017	\$ 2,636,110
<u>\$ 1,523</u>	<u>\$ 8,390</u>	<u>\$ 318,017</u>	<u>\$ 2,636,110</u>
\$	\$	\$ 344	\$ 10,253
			1,298,504
		317,673	1,317,440
1,523			1,523
	8,390		8,390
<u>\$ 1,523</u>	<u>\$ 8,390</u>	<u>\$ 318,017</u>	<u>\$ 2,636,110</u>

Reconciliation to the Statement of Net Assets:

Total Fund Balances	\$ 2,636,110
Amounts Reported for Governmental Activities in the Statement of Net Assets Are Different Because:	
Notes Receivable Are Not A Current Financial Resource And Therefore Are Not Reported in the Funds.	1,000,000
Capital Assets Used in Governmental Activities Are Not Financial Resources and Therefore Are Not Reported in the Funds.	9,278,427
Accumulated Depreciation	(993,768)
Long-term Debt Is Not Due and Payable in the Current Period and, Therefore, Is Not Reported in the Funds.	
Financing Obligations	(1,439,740)
Bonded Debt	(4,880,000)
Net Assets of Governmental Activities	<u>\$ 5,601,029</u>

The accompanying notes are an integral part of the financial statements.

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METCALFE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

METCALFE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	General Fund	Road Fund	Jail Fund	Ambulance Fund
REVENUES				
Taxes	\$ 977,614	\$	\$	\$ 178,239
In Lieu Tax Payments	85,695			
Excess Fees	3,595			
Licenses and Permits	2,619			
Intergovernmental	173,507	1,019,703	42,953	27,313
Charges for Services			160	
Miscellaneous	32,369	12,704	456	
Interest	16,755	12,887		4,358
Total Revenues	<u>1,292,154</u>	<u>1,045,294</u>	<u>43,569</u>	<u>209,910</u>
EXPENDITURES				
General Government	1,500,330			
Protection to Persons and Property	133,933		163,741	129,925
General Health and Sanitation	55,555			
Social Services	2,000			
Recreation and Culture				
Roads		793,437		
Debt Service	52,271	36,648		
Capital Projects	70,000	56,889		
Administration	247,546	51,144	5,638	
Total Expenditures	<u>2,061,635</u>	<u>938,118</u>	<u>169,379</u>	<u>129,925</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(769,481)</u>	<u>107,176</u>	<u>(125,810)</u>	<u>79,985</u>
Other Financing Sources (Uses)				
Financing Obligation Proceeds	1,000,000	48,889		
Transfers from Other Funds	242,771	34,495	127,815	
Transfers to Other Funds	(234,719)	(193,975)		
Total Other Financing Sources (Uses)	<u>1,008,052</u>	<u>(110,591)</u>	<u>127,815</u>	
Net Change in Fund Balances	238,571	(3,415)	2,005	79,985
Fund Balances - Beginning (Restated)	1,064,033	591,840	8,012	327,149
Fund Balances - Ending	<u>\$ 1,302,604</u>	<u>\$ 588,425</u>	<u>\$ 10,017</u>	<u>\$ 407,134</u>

The accompanying notes are an integral part of the financial statements.

METCALFE COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2005
(Continued)

Metcalf County Public Properties Corporation Sinking Fund	Metcalf County Public Properties Corporation Construction Fund	Non-Major Governmental Funds	Total Governmental Funds
\$	\$	\$	\$ 1,155,853
			85,695
			3,595
			2,619
399,484		474,390	2,137,350
			160
		4,445	49,974
55	138		34,193
<u>399,539</u>	<u>138</u>	<u>478,835</u>	<u>3,469,439</u>
		13,799	1,514,129
		75,761	503,360
		83,510	139,065
			2,000
		15,046	15,046
			793,437
399,484			488,403
		2,983	129,872
20		4,592	308,940
<u>399,504</u>	<u></u>	<u>195,691</u>	<u>3,894,252</u>
<u>35</u>	<u>138</u>	<u>283,144</u>	<u>(424,813)</u>
			1,048,889
	1,207	89,588	495,876
(1,207)		(65,975)	(495,876)
<u>(1,207)</u>	<u>1,207</u>	<u>23,613</u>	<u>1,048,889</u>
(1,172)	1,345	306,757	624,076
2,695	7,045	11,260	2,012,034
<u>\$ 1,523</u>	<u>\$ 8,390</u>	<u>\$ 318,017</u>	<u>\$ 2,636,110</u>

The accompanying notes are an integral part of the financial statements.

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**METCALFE COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2005

METCALFE COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ 624,076
Amounts Reported For Governmental Activities In the Statement of Activities Are Different Because Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities the Cost of those Assets is Allocated Over their Estimated Useful Lives and Reported as Depreciation Expense.	
Capital Outlay	370,965
Depreciation Expense	(222,071)
Asset Disposal, Net Value	(8,408)
Note Receivable (Nursing Home)	1,000,000
The Issuance of Debt (e.g. Bonds, Leases) Provides Current Financial Resources to Governmental Funds While Repayment of Principal On Debt Consumes The Current Financial Resources of Governmental Funds. These Transactions, However, Have No Effect on Net Assets.	
Financing Obligation Proceeds	(1,048,889)
Financing Obligations Principal Payments	49,019
Bond Principal Payments	185,000
	<hr/>
Change in Net Assets of Governmental Activities	<u><u>\$ 949,692</u></u>

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Metcalf County Health Services, Inc., a discretely presented component unit of Metcalf County Fiscal Court presents their financial statements in accordance with generally accepted accounting principles. The discretely presented component unit has adopted the accrual basis of accounting under which revenues are recognized when they are earned and expenses are recognized when incurred. The funds are accounted for on a economic resource measurement focus. With this measurement focus, all assets and liabilities are included on the Statement of Net Assets.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Metcalf County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Units

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as part of the county's primary government using the blending method.

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Metcalf County Public Properties Corporation

The Metcalfe County Fiscal Court (Fiscal Court) has the authority to appoint a voting majority of the Metcalfe County Public Properties Corporation's (PPC) Board of Directors. Fiscal Court also has the ability to approve or modify the PPC's budget, approve or modify rate or fee changes affecting revenues, veto, overrule, or modify decisions of the Board of Directors, or otherwise impose its will on the PPC. In addition, Fiscal Court is financially accountable for the PPC; legally entitled to the PPC's resources as well as legally obligated for the PPC's debt. Financial information for the Public Properties Corporation is blended within Metcalfe County's financial statements.

Discretely Presented Component Unit

The component unit's column in the government-wide financial statements include the data of the following organization. It is reported on the Statement of Net Assets and the Statement of Activities in a separate column that is labeled as "Component Unit" to emphasize this organization's separateness from the fiscal court's primary government.

Metcalf County Health Services, Inc.

On January 13, 1976, Metcalfe County Fiscal Court (Fiscal Court) authorized a plan for financing a nursing home project in Metcalfe County (County). The County, being without lawful means to incur an indebtedness to finance the acquisition and construction of a nursing home, formed Metcalfe Health Care Center Corporation (Corporation), a non-stock, non-profit, public, and charitable corporation, for such acquisition and construction. Metcalfe County has leased the property, plant, and equipment from the Corporation at an annual rental equal to the total amount of annual debt requirement on the bonds issued and sold by the Corporation. A second non-stock, non-profit, public, and charitable corporation, Metcalfe County Health Services, Inc., was formed by the County to sub-lease and operate the nursing home at the same annual rate.

The bond sale was closed March 3, 1977, and the operations of the nursing home started at this date by Metcalfe County Health Services, Inc. The nursing home is operated with two levels of care, skilled care and personal care. The nursing home has seventy-one skilled care beds and thirty personal care beds. The nursing home serves residents principally from Metcalfe County and the surrounding area.

The Corporation is exempt from federal income tax as an organization described in Section 501(c)3 of the Internal Revenue Code, classified as other than a private foundation.

Audited financial statements for Metcalfe County Health Services, Inc., a discretely presented component unit, may be requested by contacting Metcalfe County Health Services, Inc., 701 Skyline Drive, Edmonton, KY 42129.

C. Metcalfe County Elected Officials

Kentucky law provides for election of the officials above from the geographic area constituting Metcalfe County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Metcalfe County Elected Officials (Continued)

individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Metcalfe County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Metcalfe County does not report any business-type activities.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) October 1, due at discount November 1, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale in April following the delinquency date.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. Since Metcalfe County does not have any proprietary funds, its major funds are determined using governmental funds only. The fiscal court may also designate any fund as major.

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the financial statements.

Governmental Funds

The government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these revenues and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail revenues and expenditures of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these revenues and expenditures separately from the General Fund.

Ambulance Fund – This fund is used to account for revenues and expenditures for the ambulance service. The primary sources of revenue for this fund are real and personal property, motor vehicle, and other taxes. Expenditures are for protection to persons and property.

Metcalf County Public Properties Corporation Construction Fund – The primary function of this fund is for construction of the Metcalf County Courthouse Facility. Revenue came from an additional bond issuance and the expenditures account for the construction of the facility.

Metcalf County Public Properties Corporation Sinking Fund – The primary function is to account for the accumulation of resources for the payment of general and long-term debt principal and interest. Debt service is provided by rental payments in the amount of the bond payments from Administrative Office of the Courts, Commonwealth of Kentucky.

The government also has the following nonmajor funds: Local Government Economic Assistance Fund, State Grants Fund, Disaster and Emergency Services Fund, Parks and Recreation Fund, Community Development Block Grant Fund, Spay and Neuter Fund, and Homeland Security Fund, which are presented as Special Revenue Funds. Special revenue Funds are used to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificate of deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments (Continued)

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United State government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (road and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 1,000	3-25
Vehicles	\$ 1,000	3-25
Infrastructure	\$ 10,000	10-50

G. Long-term Obligations

In the government-wide financial statements a, long-term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest is reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Metcalfe County Public Properties Corporation Sinking Fund. The Metcalfe County Public Properties Corporation Sinking Fund consists of funds related to the debt service requirements of a bond issuance. The Governor's Office of Local Development does not require these funds to be budgeted.

J. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following is considered a related organization of Metcalfe County Fiscal Court: Edmonton Metcalfe County Industrial Development Authority.

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

K. Joint Ventures

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following are considered joint ventures of the Metcalfe County Fiscal Court.

Ambulance Service Corporation, Inc.

The Metcalfe County Fiscal Court has retained an ongoing financial responsibility for the Ambulance Service Corporation, Inc. (Ambulance Service). The Ambulance Service is a joint venture among Barren County Fiscal Court, City of Edmonton, City of Glasgow, TJ Sampson Community Hospital, and Metcalfe County Fiscal Court to provide emergency medical care service and transportation to the citizens of Barren County, City of Glasgow, and Metcalfe County. Each participating entity is responsible for a proportionate part of any deficit (10 percent of deficit for each board member.) The Fiscal Court has two board members; therefore, the Fiscal Court is responsible for 20 percent of any deficits of the Ambulance Service.

Barren/Metcalfe Emergency Communications Center

The Metcalfe County Fiscal Court, Barren County Fiscal Court, City of Glasgow, City of Cave City, City of Park City, City of Hiseville, and City of Edmonton entered into an interlocal agreement to provide enhanced 911 services to the citizens of Metcalfe County and Barren County. The interlocal agreement established Barren/Metcalfe Emergency Communications Center (BMECC). Under the agreement, the Metcalfe County Fiscal Court is required to establish and collect 911 fees. These 911 fees are to be remitted to BMECC.

Edmonton/Metcalfe County 911 Board

The Metcalfe County Fiscal Court (Fiscal Court) and City of Edmonton entered into an interlocal agreement to provide 911 services to the citizens of Metcalfe County. On September 14, 1993, the Fiscal Court voted to "share 50/50 the cost of police dispatching" with the City of Edmonton.

Green River Animal Shelter

The Metcalfe County Fiscal Court and Adair County Fiscal Court entered into an interlocal agreement for the establishment and maintenance of the Green River Animal Shelter.

Note 2. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 2. Deposits (Continued)

board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution's failure, the County's deposits may not be returned. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2005, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 329,000	\$	\$	\$ 329,000
Total Capital Assets Not Being Depreciated	329,000			329,000
Capital Assets, Being Depreciated:				
Buildings	7,354,543	70,000		7,424,543
Other Equipment	577,509	92,115	(44,254)	625,370
Vehicles and Equipment	303,024	25,365		328,389
Infrastructure	387,640	183,485		571,125
Total Capital Assets Being Depreciated	8,622,716	370,965	(44,254)	8,949,427
Less Accumulated Depreciation for:				
Buildings	(398,408)	(85,873)		(484,281)
Other Equipment	(249,803)	(63,588)	35,846	(277,545)
Vehicles and Equipment	(128,063)	(26,050)		(154,113)
Infrastructure	(31,269)	(46,560)		(77,829)
Total Accumulated Depreciation	(807,543)	(222,071)	35,846	(993,768)
Total Capital Assets, Being Depreciated, Net	7,815,173	148,894	(8,408)	7,955,659
Governmental Activities Capital Assets, Net	\$ 8,144,173	\$ 148,894	\$ (8,408)	\$ 8,284,659

Depreciation expense was charged to functions of the governmental activities as follows:

Governmental Activities:

General Government	\$ 75,778
Protection to Persons and Property	17,393
General Health and Sanitation	525
Social Services	11,533
Recreation and Culture	11,515
Roads, Including Depreciation of General Infrastructure Assets	105,327
Total Depreciation Expense - Governmental Activities	\$ 222,071

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 3. Capital Assets (Continued)

Capital asset activity for the discretely presented component unit for the year ended June 30, 2006 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated:				
Land	\$ 76,288	\$	\$	\$ 76,288
Total Capital Assets Not Being Depreciated	76,288			76,288
Capital Assets, Being Depreciated:				
Land Improvements	26,763	1,964		28,727
Buildings and Improvements	1,611,012	336,257		1,947,269
Equipment and Furnishings	748,051	446,980	(169,598)	1,025,433
Total Capital Assets Being Depreciated	2,359,063	783,237	(169,598)	3,001,429
Less Accumulated Depreciation For:				
Land Improvements	(15,583)	(841)		(16,424)
Buildings and Improvements	(805,882)	(42,481)		(848,363)
Equipment and Furnishings	(614,199)	(35,772)	164,044	(485,927)
Total Accumulated Depreciation	(1,435,664)	(79,094)	164,044	(1,350,714)
Total Capital Assets, Being Depreciated, Net	923,399	704,143	(5,554)	1,650,715
Capital Assets, Net	\$ 999,687	\$ 704,143	\$ (5,554)	\$ 1,727,003

Depreciation expense was charged to functions of the discretely presented major component unit was as follows:

Metcalf County Health Services, Inc.	\$ 79,094
Total Depreciation Expense - Component Unit	\$ 79,094

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 4. Short-term Debt

A. Motor Fuel Tax Anticipation Notes

In July of each year, Metcalfe County enters into an agreement for a Tax Anticipation Note with Kentucky Association of Counties. The County uses the funds for both emergency funding (if necessary) and also investment funds. The funds are placed into an account yielding a higher rate of return than incurred through note issuance. The note is paid in full at the end of each fiscal year.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Tax Anticipation Notes	\$	\$ 538,600	\$ 538,600	\$	\$
Governmental Activities					
Short-term Liabilities	\$	\$ 538,600	\$ 538,600	\$	\$

Note 5. Long-term Debt

A. First Mortgage Revenue Bond, Series 2001 - Metcalfe County Public Properties Corporation Sinking Fund

Metcalfe County Public Properties Corporation (PPC), an agency and instrumentality of the Metcalfe County Fiscal Court (Fiscal Court) created on January 23, 2001, issued Metcalfe County Public Properties Corporation First Mortgage Revenue Bonds (Bonds), Series 2001, on October 1, 2001, for the purposes of acquisition, construction, installation, and equipping of the Metcalfe County Courthouse Facility. On October 9, 2001, \$4,850,000 of bonds were issued at various interest rates. Since these bonds were issued at a discount of \$96,950, net bond proceeds were \$4,753,050. The PPC has entered into an agreement to lease the Metcalfe County Courthouse Facility to the Fiscal Court for the amount of the bond payments. The Fiscal Court has a sublease with Administrative Office of the Courts, Commonwealth of Kentucky, for approximately 100% of the Metcalfe County Courthouse Facility. Debt service requirements are:

Fiscal Year Ended June 30, 2005	Governmental Activities	
	Principal	Interest and Fees
2006	\$ 175,000	\$ 193,721
2007	180,000	188,253
2008	190,000	182,043
2009	195,000	175,108
2010	205,000	167,698
2011-2015	1,140,000	709,669
2016-2020	1,415,000	441,215
2021-2023	1,015,000	97,055
Totals	\$ 4,515,000	\$ 2,154,762

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 5. Long-term Debt (Continued)

B. First Mortgage Revenue Bonds, Series 2001 B – Metcalfe County Public Properties Corporation Sinking Fund (Continued)

Metcalfe County Public Properties Corporation (PPC), an agency and instrumentality of the Metcalfe County Fiscal Court (Fiscal Court) created on January 23, 2001, issued Metcalfe County Public Properties Corporation First Mortgage Revenue Bonds, Series 2001 B, on August 1, 2003 for the purposes of financing additional costs of constructing and equipping a new courthouse facility, capitalizing interest, and paying the costs of issuance on the Series B Bonds. On August 1, 2003, \$400,000 of bonds were issued at various interest rates. Since these bonds were issued at a discount of \$7,680, net bond proceeds were \$392,320. The PPC has entered into an agreement to lease the Metcalfe County Courthouse Facility to the Fiscal Court for the amount of the bond payments. The Fiscal Court has a sublease with Administrative Office of the Courts, Commonwealth of Kentucky, for approximately 100% of the Metcalfe County Courthouse Facility. Debt service requirements are:

Fiscal Year Ended June 30, 2005	Governmental Activities	
	Principal	Interest and Fees
2006	\$ 15,000	\$ 14,970
2007	15,000	14,490
2008	15,000	14,010
2009	15,000	13,530
2010	15,000	13,050
2011-2015	95,000	56,810
2016-2020	115,000	34,960
2021-2023	80,000	7,590
Totals	<u>\$ 365,000</u>	<u>\$ 169,410</u>

C. Road Grader

On January 11, 2000, the Metcalfe County Fiscal Court entered into a financing agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The financing agreement was for the purchase of a road grader. The principal was \$66,355 at various interest rates for a period of five years, interest and principal paid monthly. This lease was paid in full as of June 30, 2005.

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 5. Long-term Debt (Continued)

D. Enrichment Center

On March 2, 2002, the Metcalfe County Fiscal Court entered into a financing agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The financing agreement was for the Metcalfe County Enrichment Center Project. The principal was \$250,000 at various interest rates for a period of twenty years, interest and principal paid monthly. Principal outstanding as of June 30, 2005, was \$219,080. Principal and interest payment requirements excluding an anticipated interest rebate from KACoLT are:

Fiscal Year Ended June 30, 2005	Governmental Activities	
	Principal	Interest and Fees
2006	\$ 27,071	\$ 9,943
2007	8,285	9,305
2008	8,698	8,905
2009	9,137	8,462
2010	9,596	8,006
2011-2015	55,723	32,133
2016-2020	71,218	17,250
2021-2025	29,352	1,535
Totals	<u>\$ 219,080</u>	<u>\$ 95,539</u>

E. Maintenance Garage

On August 31, 2002 the Metcalfe County Fiscal Court entered into a lease-purchase agreement with the Commonwealth of Kentucky. The lease-purchase agreement was for the purchase of the property of the Old State Maintenance Garage. The principal was \$40,000 interest free for a period of five years, paid annually. Lease payment requirements are:

Fiscal Year Ended June 30, 2005	Governmental Activities	
	Principal	Interest and Fees
2006	\$ 8,000	\$ 0
Totals	<u>\$ 8,000</u>	<u>\$ 0</u>

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 5. Long-term Debt (Continued)

F. Enrichment Center - Land

On June 13, 2004, the Metcalfe County Fiscal Court entered into a financing agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The financing agreement was for the acquisition of land and building for the Metcalfe County Enrichment Center Project. The principal was \$162,000 at various interest rates for a period of fifteen years, principal paid yearly and interest paid monthly. Principal outstanding as of June 30, 2005, was \$156,520. Payment requirements excluding an anticipated interest rebate from KACoLT are:

Fiscal Year Ended June 30, 2005	Governmental Activities	
	Principal	Interest and Fees
2006	\$ 5,695	\$ 7,073
2007	5,919	6,805
2008	6,152	6,538
2009	6,393	6,228
2010	6,645	5,937
2011-2015	37,351	24,754
2016-2020	45,292	15,262
2021-2025	43,073	3,834
Totals	<u>\$ 156,520</u>	<u>\$ 76,431</u>

G. Property Valuation Administrator

On October 22, 2003, the Metcalfe County Fiscal Court entered into a financing agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The financing agreement was for the acquisition of a GIS System for the Property Valuation Administrator Office. The principal was \$9,700 at various interest rates for a period of three years, interest and principal paid monthly. Principal outstanding as of June 30, 2005, was \$2,069. Payment requirements excluding an anticipated interest rebate from KACoLT are:

Fiscal Year Ended June 30, 2005	Governmental Activities	
	Principal	Interest and Fees
2006	\$ 2,069	\$ 16
Totals	<u>\$ 2,069</u>	<u>\$ 16</u>

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 5. Long-term Debt (Continued)

H. Road Department - Mapping Software

On October 22, 2003, the Metcalfe County Fiscal Court entered into a financing agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The financing agreement was for the acquisition of a GeoSync Mapping Software and Geo XT GPS Equipment Software. The principal was \$13,020 at various interest rates for a period of three years, interest and principal paid monthly. Principal outstanding as of June 30, 2005, was \$2,776. Payment requirements excluding an anticipated interest rebate from KACoLT are:

Fiscal Year Ended June 30, 2005	Governmental Activities	
	Principal	Interest and Fees
2006	\$ 2,776	\$ 20
Totals	<u>\$ 2,776</u>	<u>\$ 20</u>

I. Road Department - Equipment

On October 22, 2003, the Metcalfe County Fiscal Court entered into a financing agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The financing agreement was for the acquisition of a GIS Data Mapping System. The principal was \$11,280 at various interest rates for a period of three years, interest and principal paid monthly. Principal outstanding as of June 30, 2005, was \$2,406. Payment requirements excluding an anticipated interest rebate from KACoLT are:

Fiscal Year Ended June 30, 2005	Governmental Activities	
	Principal	Interest and Fees
2006	\$ 2,406	\$ 46
Totals	<u>\$ 2,406</u>	<u>\$ 46</u>

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 5. Long-term Debt (Continued)

J. Nursing Home-Financing Obligations and Note Receivable

On November 24, 2004, the Fiscal Court on behalf of the Metcalfe County Health Services Inc. entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) in the amount of \$1,000,000 at an interest rate of 2.175 for the renovation and addition to the health care facilities. The lease term is for a period of twenty years, interest paid monthly and a principal payment paid yearly. Metcalfe County Health Services Inc. is responsible for making the principle and interest payments. Payment requirements are as follows:

Fiscal Year Ended June 30, 2005	Governmental Activities	
	Principal	Interest and Fees
2006	\$ 35,000	\$ 49,088
2007	40,000	47,066
2008	40,000	45,112
2009	40,000	43,061
2010	40,000	41,050
2011-2015	230,000	171,102
2016-2020	265,000	108,317
2021-2025	310,000	34,641
Totals	\$ 1,000,000	\$ 539,437

K. Backhoe

On December 10, 2004, the Metcalfe County Fiscal Court entered into a financing agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The financing agreement was for the purchase of a backhoe. The principal was \$48,889, interest paid monthly and principal paid yearly. Payment requirements are:

Fiscal Year Ended June 30, 2005	Governmental Activities	
	Principal	Interest and Fees
2006	\$ 15,000	\$ 1,112
2007	15,000	1,030
2008	18,889	82
Totals	\$ 48,889	\$ 2,224

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 5. Long-term Debt (Continued)

L. Changes In Long-Term Debt

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Revenue Bonds	\$ 5,065,000	\$ -	\$ 185,000	\$ 4,880,000	\$ 190,000
Financing Obligations	439,870	1,048,889	49,019	1,439,740	96,951
Governmental Activities					
Long-term Liabilities	<u>\$ 5,504,870</u>	<u>\$ 1,048,889</u>	<u>\$ 234,019</u>	<u>\$ 6,319,740</u>	<u>\$ 286,951</u>

Note 6. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$47,900 in interest on financing obligations and \$214,484 in interest on bonds.

Note 7. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 18.51 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 8. Insurance

For the fiscal year ended June 30, 2005, Metcalfe County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 9. Prior Period Adjustments

Beginning net assets of the governmental activities were increased by \$34,439 due to capital assets omitted from the prior year and prior year voided checks. The beginning fund balance of the general fund was increased by \$265 due to voided checks.

Reconciliation of Adjusted Beginning Capital Assets, Net

Beginning Capital Assets, Net Per June 30, 2004 Audt	\$ 8,109,734
Vehicles Retired in Prior Year	(2,560)
Equipment Retired in Prior Year	(1,564)
Accumulated Depreciation Adj. - Buildings	(257)
Land Purchased in Prior Year	8,000
Building Constructed in Prior Year	<u>30,820</u>
Restated Beginning Capital Assets, Net	<u>\$ 8,144,173</u>

Reconciliation of Beginning Net Assets

Beginning Net Assets, Net Per June 30, 2004 Audt	\$ 4,616,634
Capital Asset Adjustment	34,439
Voided Checks	265
Rounding Error	<u>(1)</u>
Restated Beginning Net Assets, Net	<u>\$ 4,651,337</u>

Note 10. Related Party Transaction

The county rented storage space from County Attorney for \$200 per month during fiscal year ended June 30, 2005.

METCALFE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005

METCALFE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 746,900	\$ 973,560	\$ 977,614	\$ 4,054
In Lieu Tax Payments	63,500	85,695	85,695	
Excess Fees	6,600	6,646	3,595	(3,051)
Licenses and Permits	2,200	2,688	2,619	(69)
Intergovernmental Revenue	192,400	199,069	173,507	(25,562)
Miscellaneous	10,000	49,913	32,369	(17,544)
Interest	14,000	29,000	16,755	(12,245)
Total Revenues	<u>1,035,600</u>	<u>1,346,571</u>	<u>1,292,154</u>	<u>(54,417)</u>
EXPENDITURES				
General Government	506,642	1,550,187	1,500,330	49,857
Protection to Persons and Property	134,800	137,236	133,933	3,303
General Health and Sanitation	79,755	79,755	55,555	24,200
Social Services	2,000	2,000	2,000	
Debt Service	45,000	82,859	52,271	30,588
Capital Projects	50,000	70,000	70,000	
Administration	863,593	1,514,433	247,546	1,266,887
Total Expenditures	<u>1,681,790</u>	<u>3,436,470</u>	<u>2,061,635</u>	<u>1,374,835</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(646,190)</u>	<u>(2,089,899)</u>	<u>(769,481)</u>	<u>1,320,418</u>
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds	16,000	1,016,000	1,000,000	(16,000)
Transfers from Other Funds		198,300	242,771	44,471
Transfers to Other Funds	<u>(169,810)</u>	<u>(169,810)</u>	<u>(234,719)</u>	<u>(64,909)</u>
Total Other Financing Sources (Uses)	<u>(153,810)</u>	<u>1,044,490</u>	<u>1,008,052</u>	<u>(36,438)</u>
Net Changes in Fund Balance	(800,000)	(1,045,409)	238,571	1,283,980
Fund Balance - Beginning (Restated)	<u>800,000</u>	<u>1,045,409</u>	<u>1,064,033</u>	<u>18,624</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,302,604</u>	<u>\$ 1,302,604</u>

METCALFE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 848,208	\$ 1,749,704	\$ 1,019,703	\$ (730,001)
Miscellaneous	1,200	13,300	12,704	(596)
Interest	10,000	15,899	12,887	(3,012)
Total Revenues	859,408	1,778,903	1,045,294	(733,609)
EXPENDITURES				
Roads	838,236	974,165	793,437	180,728
Debt Service	600,265	1,150,784	575,248	575,536
Capital Projects	8,000	8,000	8,000	
Administration	368,172	605,272	51,144	554,128
Total Expenditures	1,814,673	2,738,221	1,427,829	1,310,392
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(955,265)	(959,318)	(382,535)	576,783
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	200,000	200,000	34,495	(165,505)
Transfers To Other Funds	(200,000)	(387,787)	(193,975)	193,812
Lease Proceeds	555,265	555,265	538,600	(16,665)
Total Other Financing Sources (Uses)	555,265	367,478	379,120	11,642
Net Changes in Fund Balance	(400,000)	(591,840)	(3,415)	588,425
Fund Balance - Beginning	400,000	591,840	591,840	
Fund Balance - Ending	\$ 0	\$ 0	\$ 588,425	\$ 588,425

METCALFE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 28,300	\$ 47,566	\$ 42,953	\$ (4,613)
Charges for Services	400	400	160	(240)
Miscellaneous	100	456	456	
Total Revenues	28,800	48,422	43,569	(4,853)
EXPENDITURES				
Protection to Persons and Property	140,738	171,338	163,741	7,597
Administration	30,836	27,870	5,638	22,232
Total Expenditures	171,574	199,208	169,379	29,829
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(142,774)	(150,786)	(125,810)	24,976
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	142,774	142,774	127,815	(14,959)
Total Other Financing Sources (Uses)	142,774	142,774	127,815	(14,959)
Net Changes in Fund Balance		(8,012)	2,005	10,017
Fund Balance - Beginning		8,012	8,012	
Fund Balance - Ending	\$ 0	\$ 0	\$ 10,017	\$ 10,017

METCALFE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

AMBULANCE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 158,500	\$ 179,970	\$ 178,239	\$ (1,731)
Intergovernmental Revenue	15,800	27,313	27,313	-
Interest	4,200	4,242	4,358	116
Total Revenues	<u>178,500</u>	<u>211,525</u>	<u>209,910</u>	<u>(1,615)</u>
EXPENDITURES				
Protection to Persons and Property	180,000	180,000	129,925	50,075
Administration	399,285	432,210		432,210
Total Expenditures	<u>579,285</u>	<u>612,210</u>	<u>129,925</u>	<u>482,285</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(400,785)</u>	<u>(400,685)</u>	<u>79,985</u>	<u>480,670</u>
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds		(50)		50
Total Other Financing Sources (Uses)	<u>-</u>	<u>(50)</u>	<u>-</u>	<u>50</u>
Net Changes in Fund Balance	(400,785)	(400,735)	79,985	480,720
Fund Balances - Beginning	<u>400,785</u>	<u>400,735</u>	<u>327,149</u>	<u>(73,586)</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 407,134</u>	<u>\$ 407,134</u>

METCALFE COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2005

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Reconciliation to the Statement of Revenues, Expenditures, And Changes In Fund Balance:

Reconciliation of Road Fund

Expenditures - Budgetary Basis	1,427,829
Add: Financing Obligation Proceeds	48,889
Less: Debt Service - Short Term Note	<u>(538,600)</u>

Expenditures - Modified Cash Basis	<u><u>\$ 938,118</u></u>
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Other Financing Sources

Total Other Financing Sources (Uses) - Budgetary Basis	\$ 379,120
Add: Financing Obligation Proceeds	48,889
Less: Debt Service - Short Term Note	<u>(538,600)</u>

Total Other Financing Sources (Uses) - Modified Cash Basis	<u><u>\$ (110,591)</u></u>
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**METCALFE COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2005

METCALFE COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2005

Special Revenue Funds				
	Local Government Economic Assistance Fund	State Grants Fund	Disaster and Emergency Services Fund	Parks and Recreation Fund
ASSETS				
Cash and Cash Equivalents	\$ 3,830	\$ 255,000	\$ 10,426	\$ 1,097
Total Assets	<u>\$ 3,830</u>	<u>\$ 255,000</u>	<u>\$ 10,426</u>	<u>\$ 1,097</u>
FUND BALANCES				
Reserved For:				
Encumbrances	\$ 275	\$	\$	\$ 69
Unreserved:				
Special Revenue Funds	<u>3,555</u>	<u>255,000</u>	<u>10,426</u>	<u>1,028</u>
Total Fund Balances	<u>\$ 3,830</u>	<u>\$ 255,000</u>	<u>\$ 10,426</u>	<u>\$ 1,097</u>

The accompanying notes are an integral part of the financial statements.

METCALFE COUNTY
COMBINING BALANCE SHEET –
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
June 30, 2005
(Continued)

Special Revenue Funds		
Community Development Block Grant Fund	Homeland Security Fund	Total Non-Major Governmental Funds
\$ 47,643	\$ 21	\$ 318,017
<u>\$ 47,643</u>	<u>\$ 21</u>	<u>\$ 318,017</u>
\$	\$	\$ 344
<u>47,643</u>	<u>21</u>	<u>317,673</u>
<u>\$ 47,643</u>	<u>\$ 21</u>	<u>\$ 318,017</u>

The accompanying notes are an integral part of the financial statements.

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METCALFE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2005

METCALFE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2005

	Special Revenue Funds			
	Local Government Economic Assistance Fund	State Grants Fund	Disaster and Emergency Services Fund	Parks and Recreation Fund
REVENUES				
Intergovernmental	\$ 1,504	\$ 310,419	\$ 29,050	\$
Miscellaneous Revenues	150			4,295
Total Revenues	<u>1,654</u>	<u>310,419</u>	<u>29,050</u>	<u>4,295</u>
EXPENDITURES				
General Government	11,884	1,915		
Protection to Persons and Property			21,777	
General Health and Sanitation		44,954		
Recreation and Culture		475		14,571
Capital Projects		2,983		
Administration	1,234		3,358	
Total Expenditures	<u>13,118</u>	<u>50,327</u>	<u>25,135</u>	<u>14,571</u>
Excess (deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(11,464)</u>	<u>260,092</u>	<u>3,915</u>	<u>(10,276)</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	9,804	44,878	6,232	11,000
Transfers To Other Funds		(54,935)		(40)
Total Other Financing Sources (Uses)	<u>9,804</u>	<u>(10,057)</u>	<u>6,232</u>	<u>10,960</u>
Net Change in Fund Balances	(1,660)	250,035	10,147	684
Fund Balances - Beginning	5,490	4,965	279	413
Fund Balances - Ending	<u>\$ 3,830</u>	<u>\$ 255,000</u>	<u>\$ 10,426</u>	<u>\$ 1,097</u>

METCALFE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – NON-MAJOR GOVERNMENTAL FUNDS – MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2005
(Continued)

Special Revenue Funds			
Community Development			Total
Block Grant Fund	Spay and Neuter Fund	Homeland Security Fund	Non-Major Governmental Funds
\$ 79,412	\$	\$ 54,005	\$ 474,390
			4,445
79,412		54,005	478,835
			13,799
		53,984	75,761
38,447	109		83,510
			15,046
			2,983
			4,592
38,447	109	53,984	195,691
40,965	(109)	21	283,144
6,674		11,000	89,588
		(11,000)	(65,975)
6,674			23,613
47,639	(109)	21	306,757
4	109		11,260
\$ 47,643	\$ 0	\$ 21	\$ 318,017

The accompanying notes are an integral part of the financial statements

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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The Honorable Greg Wilson, Metcalfe County Judge/Executive
The Honorable Donald Butler, Former Metcalfe County Judge/Executive
Members of the Metcalfe County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate discretely presented component unit and remaining fund information of Metcalfe County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated June 15, 2007, wherein we issued a qualified opinion on the discretely presented component unit because it did not issue its financial statements in accordance with the modified cash basis of accounting. We did not audit the financial statements of Metcalfe County Health Services, Inc. Other auditors whose report has been furnished to us audited those financial statements. Metcalfe County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. The audit of the Metcalfe County Health Services, Inc. was not conducted in accordance with Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Metcalfe County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Metcalfe County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying comments and recommendations as items: 2005-01, 2005-02, 2005-03, 2005-04, and 2005-05.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2005-03 and 2005-05 to be a material weakness.

FLOYD COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Supplemental Information
Fiscal Year Ended June 30, 2005
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Metcalfe County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of Metcalfe County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Ross & Company", written in dark ink.

Ross & Company, PLLC
Certified Public Accountants

June 15, 2007

**METCALFE COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2005

METCALFE COUNTY COMMENTS AND RECOMMENDATIONS

Fiscal Year Ended June 30, 2005

2005-01 The County Should Improve Their Internal Control Procedures

The County has a lack of segregation of duties. Due to the entity's diversity of official operations, small size, and budget restrictions the County has limited options for establishing an adequate segregation of duties. We recommend the following procedures be implemented to strengthen the internal control weaknesses:

- An independent person should list all receipts and agree them back to the treasurer's receipts ledger. Also, the employee opening the mail should keep a listing of all checks received for that day, detailing the date received, the check amount, whom it is from, and what the check is for.
- An independent person should open bank statements and review them for unusual items, such as debit memos, and overdraft charges. The person by initialing the bank statement can document this.
- An independent person should review the treasurer's bank reconciliations for accuracy. The person completing this review should initial the bank reconciliation to document that a review was performed.
- An employee independent of check writing and posting duties should match purchase orders to checks and invoices. The employee who signs the checks should cancel the purchase orders and invoices to ensure invoices are not paid twice.
- The receipt of cash, the disbursement of cash, and the posting of cash to the ledgers should be delegated to separate individuals.
- The County should implement stronger internal controls over the computer system. All transactions should be backed up daily on a disk and should be secured off-site.

Current County Judge/Executive Greg Wilson's Response:

The County will strive to implement the procedures to improve internal control and put in place corrective action as limited staff will allow.

2005-02 The County Should Maintain Proper Records For The Public Properties Corporation Funds

The County should maintain proper records for the Public Properties Corporation (PPC) – Sinking Fund and Construction Fund. Since the Fiscal Court is financially accountable and legally obligated for the debt of the PPC, it is a blended component unit of the Fiscal Court. The County should receive the bank statements for the PPC, maintain a receipts and disbursements ledger, reconcile the account monthly, and prepare a financial statement. We recommend the County maintain proper records for the PPC in the future.

Current County Judge/Executive Greg Wilson's Response:

The County will maintain proper records for the Metcalfe County Public Properties Corporation in the future.

2005-03 The County Should Maintain Complete And Accurate Capital Asset Schedules To Comply With GASB 34 Requirements And Inventory Capital Assets Periodically

The County did not have a completed capital asset schedule for fiscal year ending June 30, 2005. A list of capital asset additions and disposals were not properly maintained. A schedule of additions should be maintained as assets are purchased to simplify the process of updating the

Report On Internal Control Over Financial Reporting
 And On Compliance And Other Matters Based On An Audit Of Financial
 Statements Performed In Accordance With Government Auditing Standards
 (Continued)

2005-03 The County Should Maintain Complete And Accurate Capital Asset Schedules To Comply
 With GASB 34 Requirements And Inventory Capital Assets Periodically (Continued)

capital asset schedule. The schedule should include the date the asset was acquired, a description of the asset, the vendor name, and the amount. Invoices for asset acquisition and invoices for all other disbursements should be kept on file in a manner that allows retrieval of the original invoice for review and verification as needed by management and auditors. Further, the capital asset listing should be monitored and maintained on a regular basis. As new assets are acquired they should be added to the listing. Additionally, the County should take a physical inventory of its capital assets on a regular basis (such as every two to three years) or at the beginning of a new administration to ensure that only active, in-service machinery and equipment is included on the County's financial statements. This will ensure that fixed assets are properly stated and that depreciation is being calculated from a reliable listing. As equipment is disposed of it should be removed from the listing. We recommend that the County maintain complete and accurate capital assets schedules to comply with GASB 34 requirements and take a physical inventory of capital assets on a regular basis.

Current County Judge/Executive Greg Wilson's Response:

The County will maintain complete and accurate capital asset schedules to ensure compliance.

2005-04 The County Should Review Control Activities Of The Accounting Software

Through observation and inquiry, it was noted that several deficiencies appear to exist with regards to the Fiscal Court's accounting software. The software is installed on the following computers: the Judge, the Finance Officer, and the Treasurer. User restrictions are not in place leaving the accounting and financial data prone to manipulation. The system does not have passwords and can be easily accessed. In addition, the payroll software does not have adequate restrictions and controls. The payroll software allows any user to add or delete vacation, sick, and holiday hours that have accrued to an employee. We believe this is a significant deficiency that could result in employees receiving additional pay that has not been earned.

We recommend that the Fiscal Court contact their systems administrator or software manufacturer. Specifically, the accounting and payroll software should be reviewed and the following controls implemented:

- Identify authorized users and define their access to relevant information.
- Establish physical and logical controls to prevent or detect unauthorized access.
- Limit access to the accounting and payroll software based on job responsibilities and document user authorizations.
- Passwords should be changed periodically and employees should not share their password with others.
- Establish adequate physical controls to ensure that access to computer workstations are restricted to authorized personnel. For example, employees should log off when leaving their office or desk.
- Establish appropriate procedures for back-up and storage of applications and data files.
- The Treasurer and Finance Officer should only have access privileges to the accounting and payroll software for their specified duties.

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

2005-04 The County Should Review Control Activities Of The Accounting Software (Continued)

Current County Judge/Executive Greg Wilson's Response:

The County will contact the system software manufacturer and request controls suggested. Payroll records of leave time earned and used are maintained manually providing supporting verification.

2005-05 The County Should Improve Purchase and Procurement Procedures

During testing we noted instances of nonfederal expenditures tested that either did not have the original supporting documentation or were not paid within 30 days. KRS 65.140(2) states, "All bills for goods or services shall be paid within thirty (30) workings days of receipt of a vendor's invoice."

Good internal controls dictate that adequate original supporting documentation be maintained for all receipts and disbursements. All original invoices should be maintained, agreed to the corresponding purchase order, and canceled upon payment. Copies are not acceptable.

Lack of proper accounting practices and internal control increase the risk that misstatements of financial activity and/or fraud will occur and go undetected by the fiscal court. Without proper procedures in place to mitigate this risk, the fiscal court is exposing public resources to potential misstatements and/or fraud.

We recommend the fiscal court maintain all original invoices and ensure that all purchase orders are signed. Also, invoices should be agreed to purchase orders and discrepancies should be investigated and resolved.

Current County Judge/Executive Greg Wilson's Response:

The County will make every effort to obtain original invoices for supporting documentation as recommended.

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**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

METCALFE COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2005**

Appendix A

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
METCALFE COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2005

The Metcalfe County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.


Metcalfe County Judge/Executive


Metcalfe County Treasurer

